CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 29, 2006

H.R. 2990
Credit Rating Agency Duopoly Relief Act of 2006

As ordered reported by the House Committee on Financial Services on June 14, 2006

H.R. 2990 would require the Securities and Exchange Commission (SEC) to establish a registration process for credit rating agencies (groups that determine credit worthiness of securities or money market instruments) that seek to be designated by the SEC as a nationally recognized statistical rating organization (NRSRO). Under current law, there is no formal registration process; SEC staff currently recognizes five credit rating agencies as NRSROs.

Under the bill, SEC would impose disclosure and filing requirements on credit rating agencies seeking registration. The SEC would prohibit certain activities of registered credit rating agencies, including seeking payment for unsolicited ratings and issuing or modifying ratings on the condition of the customer purchasing other services from the credit rating agency. Based on information from the Commission and assuming the availability of appropriated funds, CBO estimates that implementing the registration and enforcement requirements of the bill would cost $3 million over the 2007-2011 period. Enacting H.R. 2990 would not affect direct spending or revenues.

H.R. 2990 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

H.R. 2990 would impose a new private-sector mandate, as defined in UMRA, on credit rating agencies that are currently designated as NRSROs. The bill would redefine the term NRSRO, cease any further designation under the present meaning, eliminate the current process by which the designation is received, and allow registration under the new definition of the term. NRSROs will continue to be regulated by the SEC.

Although credit rating agencies that chose to become NRSROs under this bill would be agreeing to abide by all the rules and processes attached to the designation, this bill would result in increased administrative costs to currently designated NRSROs who want to retain that designation. CBO estimates that the incremental cost would be limited to the time, money, and effort necessary to transfer the registration form from the credit rating agency to the SEC. Given that small cost per credit rating agency and the fact that only five such agencies now have the NRSRO designation, CBO estimates that costs would not exceed the annual threshold for private-sector mandates ($128 million in 2006, adjusted annually for inflation).

The CBO staff contacts for this estimate are Gregory Waring (for federal costs) and Patrice Gordon and Carla-Marie Ulerie (for the impact on the private sector). This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.